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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)
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Federal-State Joint Board on)
Universal Service)
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CC Docket No. 96-45

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**COMMENTS OF PACIFIC TELECOM, INC.
RELATING TO STAFF WORKSHOPS ON PROXY COST MODELS**

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January 24, 1997

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SUMMARY

The January 14-15, 1997 workshops discussing the models for determining the cost of providing universal service confirm the critical need to specifically study rural carrier requirements in order to develop a comprehensive cost model for use by rural telephone companies. Pacific Telecom, Inc. ("PTI") previously urged in its response to the Common Carrier Bureau's December 12, 1996 questions to the proxy cost model proponents that the Commission appoint a separate rural panel of experts to participate in the workshops and to commence the process of adapting the forward-looking cost principles under review to the unique characteristics of rural carriers. The Commission took a positive step in appointing PTI's expert to the panel discussion. But it did not separately establish any task force or program for addressing rural issues on an ongoing basis, consistent with the structure and timetable for the treatment of rural carriers set out in the Joint Board's Recommended Decision.

As the record of the panel discussions makes clear, the recent two-day workshops did not adequately address the needs of rural telephone companies, and thus did nothing to allay PTI's previously expressed concerns. While the Joint Board recommended that a cost model not be applied to rural LECs prior to the completion of a three-year transition period, the interrelationship between the Local Competition, Universal Service, and Access Charge Reform proceedings makes it imperative that study of the application of any model to rural carriers commence now, in 1997. Separate study of rural issues will not conflict with any existing timetable in any of these proceedings. Conversely, examination of the issues in advance of January 1, 2001 will minimize the discontinuities, discrepancies, and unintended consequences that otherwise might attend the imposition on rural carriers of a model that does not account for the comprehensive scope and effects of these proceedings. For the reasons noted by the Joint Board, such failings could threaten the viability of rural telephone service.

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**COMMENTS OF PACIFIC TELECOM, INC.
RELATING TO STAFF WORKSHOPS ON PROXY COST MODELS**

Pacific Telecom, Inc. ("PTI") submits these Comments in response to the Commission's January 15, 1997 Public Notice requesting comments on the discussions conducted during the January 14-15, 1997 Federal-State Joint Board on Universal Service ("Joint Board") workshops relating to the selection of a proxy cost model for determining the cost of providing the service supported by the universal service support mechanism.¹ In response to the Commission's December 12, 1996 request for comments on questions posed by the Common Carrier Bureau to the proponents of various proxy models, PTI filed comments urging the Commission to appoint a panel of experts specifically to address rural carrier needs in the context of developing a comprehensive cost model for use in universal service funding.² The discussions held during the January 14-15 workshops reinforce the need for timely action to create a vehicle

¹ See Federal-State Joint Board on Universal Service: Staff Workshops on Proxy Cost Models, DA 97-88, CC Docket No. 96-45 (released Jan. 15, 1997).

² See Comments of Pacific Telecom, Inc. in Response to Questions Relating to Proxy Cost Models (filed Jan. 7, 1997), in Federal-State Joint Board on Universal Service, CC Docket No. 96-45 ("PTI Comments").

for studying and adjusting a rural cost model, prior to its implementation for rural telephone companies.

As an operator of rural telephone companies throughout the Midwest, Pacific Northwest, and Alaska, PTI is concerned about how the three Commission proceedings that make up the "Competition Trilogy" -- Universal Service, Local Competition, and Access Charge Reform -- apply to rural carriers, particularly with respect to their ability to recover basic network investment while maintaining reasonable rates for their customers. Acting on these concerns, PTI previously urged the Commission to appoint a separate rural panel to work with the federal and state commission staffs as part of the recent cost model workshops held on January 14-15, 1997. Although PTI's economic expert was afforded such participation, no special emphasis upon or examination of rural issues transpired during the workshops.

Indeed, despite two full days of debate concerning the various proxy models under review,³ there was no substantive, comprehensive discussion there concerning how the models would perform in the context of rural serving requirements. To the extent that rural concerns were addressed at all, most speakers declined to offer any detailed analysis of rural issues and effects, generally on the ground that rural cost modelling issues, having been deferred by the Joint Board, were not a timely object of discussion. As a clear case in point, existing versions of AT&T's Hatfield Model have yet to incorporate any rural company data.

³ In PTI's view, the discussions were hampered by the facts that (a) the Telecom Expense Cost Model had been formally introduced only the week before the workshops and that (b) the Hatfield Model Release 3.0, though the focus of the AT&T presentation at the workshop, was and is unavailable to any participant until the beginning of February 1997.

There can be no serious dispute about rural telephone companies' special needs or the importance of minimizing any adverse impact on their ability to recover their costs through appropriately tailored mechanisms. In its Recommended Decision, the Joint Board emphasized the unique characteristics of rural carriers in recommending that rural carriers not be subject to a proxy cost model immediately. The Joint Board specifically acknowledged that "[s]ince rural carriers generally serve fewer subscribers relative to the large incumbent LECs, serve more sparsely populated areas, and do not generally benefit from economies of scale and scope as much as non-rural carriers, they often cannot respond to changing operating circumstances as quickly as large carriers."⁴ Elsewhere, the Joint Board posited the "unique situations of rural carriers."⁵

Moreover, the Commission is implementing a host of interrelated proceedings.

As the Commission explained in the Local Competition First Report and Order:⁶

It is widely recognized that, because a competitive market drives prices to cost, a system of charges which includes non-cost based components is inherently unstable and unsustainable. It is also

⁴ Federal-State Joint Board on Universal Service, Recommended Decision, FCC 96J-3, CC Docket No. 96-45, at ¶ 283 (released Nov. 8, 1996) ("Recommended Decision").

⁵ Id.; see also Separate Statement of Commissioner Susan Ness at G-2 ("We have agreed to bifurcate the treatment of rural and non-rural local exchange carriers, recognizing that rural carriers are more vulnerable to errors that may be caused by the proxy models and that Congress envisioned a slower transition to competition in rural areas."); Separate Statement of Commissioner Chong at G-3, G-10 to G-11 ("In recognition of their special needs and in order to minimize any disruption or adverse impact of the change on rural carriers, I have agreed to a slower phase-in of proxy models for rural telephone companies. . . . I believe the Commission set forth the right signal in our recent Local Competition Order, when we expressly recognized the close interrelationship between access charge and universal service reform and espoused our commitment to 'complete access reform before or concurrently with a final order on universal service.'").

⁶ Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, First Report and Order, CC Docket No. 96-98, FCC 96-325 (released Aug. 9, 1996) ("Local Competition First Report and Order").

well-recognized that access charge reform is intensely interrelated with the local competition rules of section 251 and the reform of universal service. We will complete access reform before or concurrently with a final order on universal service.

Only when all parts of the trilogy are complete will the task of adjusting the regulatory framework to fully competitive markets be finished. . . . We will, however, act quickly to complete the three essential rulemakings. We intend to issue a notice of proposed rulemaking in 1996 and to complete the access charge reform proceeding concurrently with the statutory deadline established for the section 254 rulemaking. This timetable will ensure that actions taken by the Joint Board in November and this Commission by not later than May 1997 in the universal service reform proceeding will be coordinated with the access reform docket.⁷

In the Access Charge Reform Notice, the Commission again stressed that, “because of the role that access charges have played in funding and maintaining universal service, it is critical to implement changes in the access charge system together with complementary changes in the universal service system.”⁸

As PTI has noted,⁹ access charges and universal service funding are two of the main interstate sources of return upon and recovery of rural LECs’ investments. Decisions concerning access charge reform plainly will affect the size and scope of the universal service

⁷ Id. at ¶¶ 8-9.

⁸ Access Charge Reform, Notice of Proposed Rulemaking, Third Report and Order, and Notice of Inquiry, CC Docket Nos. 96-262, 94-1, 91-213, 96-263, at ¶ 244 (released Dec. 24, 1996) (“Access Charge Reform Notice”); see also Separate Statement of Commissioner Julia Johnson and Chairman Sharon L. Nelson on Recommended Decision of the Federal-State Joint Board on Universal Service at G-2, G-9 (“The ongoing need for oversight highlights the need for flexibility and collaboration between the federal and state officials. . . . In addition, we note that the FCC soon will embark on the third and fourth books of the ‘quartet’ -- access charge reform and separations reform. Reforms flowing from those dockets will inevitably affect the size and scope of the universal service fund and must be addressed concurrently and coherently.”).

⁹ See PTI Comments at 7-9.

fund and any adjustments that rural carriers need to make in order to avoid over- or under-collection of revenues. If the Commission does not concurrently address rural issues as various cost models are developed, serious discontinuities in how those or other models apply to rural carriers could result. Such discontinuities could severely impair the viability of rural telephone service and undermine Congress' procompetitive goals underlying the Telecommunications Act of 1996.

The Joint Board already "recommend[ed] that the Commission, working with the state commissions, review the proxy model to ensure that it takes into consideration the unique situations of rural carriers."¹⁰ PTI concurs and urges the Commission to give thought now to establishing a rural task force, under continuing Joint Board oversight,¹¹ as part of its final disposition of universal service matters on or before May 8, 1997.¹² Addressing forward-looking cost issues for rural telephone companies in this manner will not interfere with any existing schedule in any of the Commission's proceedings implicating such cost development.¹³ Conversely, doing so will promote the efficient, fair, and comprehensive resolution of issues "unique" to rural carriers.

¹⁰ Recommended Decision at ¶ 283.

¹¹ The task force could report directly to the Joint Board. As such it would not be subject to the requirements of the Federal Advisory Committee Act, 5 U.S.C. App. 2 (1988).

¹² See 47 U.S.C. § 254(a)(2).

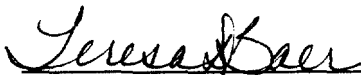
¹³ The Commission already has noted that rural telephone companies are exempt from interconnection requirements under the provisions of 47 U.S.C. § 251(f)(1). See Local Competition First Report and Order at ¶¶ 1262-1265. As discussed above, the Joint Board has proposed a separate period for development and application of cost model principles to rural telephone companies. See Recommended Decision at ¶ 283. The Access Charge Reform Notice applies only to price cap companies, which in effect generally excludes rural telephone companies. See Access Charge Reform Notice at ¶ 52 & n.88.

For the foregoing reasons, as well as the reasons stated in PTI's January 7, 1997 Comments in Response to Questions Relating to Proxy Cost Models, PTI respectfully requests that the Commission promptly appoint a task force comprised of rural service experts to address rural carrier needs in the context of developing a comprehensive proxy model for use in universal service funding and other related Commission proceedings.

Respectfully submitted,

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January 24, 1997

CERTIFICATE OF SERVICE

I hereby certify that I have this 24th day of January, 1997, caused a copy of the foregoing "Comments of Pacific Telecom, Inc. Relating to Staff Workshops on Proxy Cost Models" to be served by first class mail, postage prepaid, on the following:

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